

# Legislative Audit Division

State of Montana



Report to the Legislature

March 2000

## Limited Scope Performance Audit

### State and Federal Surplus Property Programs

Department of Administration

This report describes the state and federal surplus property process used in Montana. Findings and recommendations address:

- < Allowing for agency disposition of low- and no-value items to increase process efficiency.
- < Improving program awareness.
- < Clarifying delegation authority procedures regarding sales.

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March 2000

The Legislative Audit Committee  
of the Montana State Legislature

We conducted a performance audit of the state and federal surplus property programs in Montana. The Property and Supply Bureau in the Department of Administration is responsible for oversight of surplus property activities. This report contains recommendations for improving state and federal surplus property program operations. Written response from the Department of Administration is included at the end of the report.

We appreciate the cooperation and assistance of department staff during the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seecat  
Legislative Auditor

# **Legislative Audit Division**

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## **Limited Scope Performance Audit**

# **State and Federal Surplus Property Programs**

## **Department of Administration**

Members of the audit staff involved in this audit were Tom Cooper, Joe Murray, and Jim Nelson.

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## Appointed and Administrative Officials

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### **Department of Administration**

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Marvin Eicholtz, Administrator  
Procurement and Printing Division

Mark Athearn, Program Manager

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### Introduction

Based on issues related to surplus property developed in a financial compliance audit of the Department of Administration (DofA), we conducted a limited scope performance audit of the state and federal surplus property programs. Within DofA, the Property and Supply Bureau (PSB) is responsible for operation and oversight of the surplus property programs.

There are two types of surplus property programs: state surplus and federal surplus. The state program is funded through the collection of a handling fee associated with the sale of state surplus property. The federal program is funded through the sales revenue from surplus federal property. Neither program receives state General Fund or federal support. Within PSB, seven FTE positions are assigned to the state and federal surplus property programs.

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### State and Federal Missions Are Not the Same

The missions of the state and federal surplus programs are not the same.

- < The purpose of the state program is to provide a process for state agencies to dispose of surplus equipment and material.
- < The purpose of the federal program is to provide a process to assure an equitable distribution of available federal property to qualifying entities.
- < Both programs focus on providing property to other eligible government entities at the lowest cost possible.

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### State Surplus Property

According to the State Plan of Operations, once the item is on inventory, there are four succeeding surplus property cycles. The primary purpose of the cycles is to assure eligible entities such as other state agencies or local governments are provided the first opportunity to purchase surplus property. Direct transfer to another state agency would occur prior to the first cycle. The four cycles are:

- < Donee entity cycle. The material is only available to eligible donee entities by visiting the warehouse.

## Report Summary

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- < Public cycle. Material is available to the public through public sales, bid solicitations, and auctions.
- < Scrap/salvage cycle. After about 90 days, a determination is made by PSB regarding the need for disposal of material which has not sold.
- < Junk cycle. Property may be destroyed or disposed of when PSB staff determine there is no remaining value.

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### Auction Sales

Some state and federal surplus items are sold at public auctions administered by the department. While surplus office furniture may be sold at auction, vehicles (sedans, trucks, vans) from all state agencies and specialized items such as road maintenance equipment are more likely to be sold at the auction. The department administers one or two auctions each year depending on the surplus inventory available.

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### Audit Observations of State Surplus Property

Based on our examination of state surplus property in the PSB warehouse, we made the following observations:

- < Most property processed as surplus by state agencies is nearing the end of its “remaining useful life.”
- < As a result of the condition of this property, items are priced relatively low compared to the market value of new/replacement items.
- < There are exceptions, notably vehicles and heavy/specialized equipment and occasionally one-of-a-kind office furnishings. These items, which are primarily sold to the public, are priced relative to their market value.
- < The primary purchaser of surplus state property is the public, followed by eligible donee entities.
- < While storage space is limited, low prices allow for an inventory turnover which can continue to accommodate addition surplus state property.

### *State Program Conclusions*

When we initiated our review of the state surplus property program, we were aware of agency criticism of the handling fee rate used by the department. According to law, the department can establish handling fees to cover the cost of operations. However, the law does not provide criteria beyond calculating a “reasonable” handling fee. In past years, the state surplus property fund balance, which is accumulated from collection of handling fees, has been relatively high. Department activity in the last three years reflects an effort to reduce fund balances by reducing handling fees. *We conclude the department’s monitoring of the fund balance is providing a reasonable approach to managing handling fees.*

One of our audit objectives was to determine if the department meets the intent of the state surplus property program. We found the state’s surplus program provides a process for state agencies to dispose of surplus equipment and material. Secondly, the program provides state surplus property to eligible donee entities at the lowest cost possible. *Based on our review, we conclude the department meets the intent of the state surplus property program.*

### **Additional Flexibility Could Improve Process**

Another one of our other audit objectives was to assess centralized versus decentralized control of state surplus property activities to determine any need for revision. The current process was established by the legislature to assure control of state property. Further, the department’s development of rules and implementation of policies and procedures emphasize control and reduce opportunities for mistakes. However, we identified an issue related to the need for additional flexibility for agencies to more efficiently handle items with low and no value that are excess to their needs. We found the costs associated with processing low/no-value items exceed the return to the state if the items are sold. To improve the surplus property process and increase the efficient use of state resources, agencies should have more flexibility for disposition of low-value and no-value items.

## Report Summary

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### **Inventory Review Revealed Many Low-Value Items**

To determine the extent of the low/no-value property in the system, we examined the October 1999 inventory. We noted 584 warehouse items (52 percent) on the inventory list were priced at \$5.00 or less. Based on our estimates of the amount of time required to complete the steps of the surplus property process, we question the efficiency of processing items with little or no value.

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### **Department Should Revise Administrative Rules**

We recommend the department revise administrative rules to allow agencies more flexibility to make cost effective decisions regarding the disposition of low- and no-value surplus property.

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### **Federal Surplus Property Program Process**

Federal statute allows states to establish a central agency for access to surplus federal property. Montana has implemented the federal program under Title 18, chapter 5, part 2, MCA. Federal property is available to the state of Montana through agencies such as the Departments of Defense, Treasury, and Commerce.

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### **Audit Observations of Federal Surplus Property**

We made the following observations regarding PSB's federal surplus program:

- < Most federal surplus property has remaining useful life.
- < The cost of acquiring federal surplus property allows for a relatively low price compared to the market value of new/replacement items.
- < There are exceptions; since purchases are made in "lots" occasionally low quality items must be accepted to acquire the more valuable material. To sell these items, the price may be less than the cost to the state.
- < The size of the inventory reflects one program intent: to maintain adequate types and quantities of materials to support the needs of eligible entities.

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### ***Federal Program Conclusions***

Section 18-5-203, MCA, requires the state's federal surplus agency to be self-sustaining and pay for its operations and maintenance from receipts of surplus property sales. Staff influence the fund balance by pricing items at the upper and lower limits of the range allowed by federal criteria. We conclude the department's procedures provide for adequate control of the requirement for the federal surplus program to be self-sustaining.

Our audit objective for federal property asked if the department meets the intent of the federal surplus property program. We noted the federal surplus program provides a process to assure an equitable distribution of property to qualifying entities. Secondly, the program provides federal surplus property to eligible donee entities at the lowest cost possible. *Based on our review, we conclude the department meets the intent of the federal surplus property program.*

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### **Surplus Property Program Awareness**

Through discussions with state agency staff and donee entity officials, we identified several issues relating to surplus property program awareness.

- < State agency staff and local government donee entity officials indicated they were not aware items could be listed on a PSB maintained want list.
- < The monthly bulletin distributed by PSB was not always received by state agencies and donee entities.
- < State agency staff and donee entity officials who were not aware of the 50 percent-off sale.
- < Not all agency property officials were aware of the school donation program.

## Report Summary

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### **On-Going Process for Program Awareness is Needed**

During our audit, PSB was in the process of developing an electronic web site to compliment the monthly bulletin. The web site could not only be used to make a more current and timely inventory list available to state agency staff, donee entity officials, and the public, but could also be used to resolve the program awareness issues. Further, staff could develop procedures to use the monthly bulletin to better explain items such as how to use the want list, 50-percent-off sale procedures, and school donation.

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### **Control of Revenue From Agency Sales**

Based on the general provisions of Title 18, chapter 4, MCA, the department delegated the “option” to use PSB surplus property services to units of the University System. Delegated authority allows university units to directly dispose of property through salvage, recycling, disposal in a landfill, or sales to other government entities and the public. At one campus, staff developed criteria for using sales revenue to help cover the cost of staff time in support of the sale, equipment facility use, and advertising. Further, the criteria included returning revenue in excess of \$500 for an individual item to the department releasing the item. This criteria is not consistent with the PSB handling fee policy.

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### **Revenue Control Should Be Consistent with Existing Criteria**

We recommend the department clarify delegation authority to provide agencies with procedures for establishing sales responsibility centers, retaining adequate cost documentation, and depositing surplus property sales revenue into accounts managed by the agency. These procedures should be consistent with the fee structure used by PSB.

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### **Inventory Control Upgrade**

Another one of our objectives was to assess inventory controls to determine any need for improving inventory control by upgrading existing state and federal program systems and procedures. We examined random samples of property for both programs by comparing on-hand warehouse quantities to the inventory list. We identified minor discrepancies in both programs.

## Report Summary

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### **Facility Resource Is a Consideration**

The existing facility is basically an open warehouse, divided to meet security needs to maintain separate state and federal inventories. We noted the primary reasons for inventory inaccuracy related to the movement of property within the facility. To increase controls within the facility to reduce property movement and improve staff capability to locate items, both more space and better utilization of space would be required.

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### ***Inventory Control Conclusion***

The trade-off of the cost of facility and computer system upgrade does not appear to match potential gains in inventory control. *We conclude upgrade of Montana's surplus property inventory control system would not be cost effective at this time.*

# Chapter I - Introduction

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## **Introduction**

Based on issues related to surplus property developed in a financial compliance audit of the Department of Administration (DofA), we conducted a limited scope performance audit of the state and federal surplus property programs. Within DofA, the Property and Supply Bureau (PSB) is responsible for operation and oversight of the surplus property programs.

## **Audit Objectives**

We established the following audit objectives:

- < Provide the legislature with information about the state and federal surplus property programs, such as statutory criteria, operating procedures, and activity.
- < Determine if the department is meeting the intent of the state and federal surplus property programs.
- < Assess centralized (DofA) versus decentralized (state agencies) control of state surplus property to determine any need for revision.
- < Assess inventory controls to determine any need for upgrade.

## **Audit Scope and Methodologies**

The scope of this audit included the state and the federal surplus property programs within the DofA. We examined processes, procedures, and controls used during fiscal year 1998-99 regarding:

- < Acquiring surplus state and federal property by PSB.
- < Adding/deleting/maintaining inventory.
- < Acquiring entity eligibility, application, review, approval, and designation.
- < Property pricing.
- < Tax-supported activity sales.
- < Public sales and auctions.
- < Disposal and/or salvage.
- < Revenue receipt and disposition.

## Chapter I - Introduction

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We did not audit activities associated with:

- < Overseas surplus federal property acquisition.
- < Surplus handgun sales/disposal for the Department of Justice, Department of Fish, Wildlife and Parks, and Department of Livestock.

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### Methodologies

We reviewed statutes relating to state (section 18-4-201, MCA) and federal surplus property (section 18-5-201, MCA), and reviewed Administrative Rules related to state (section 2.5.700, ARM) and federal surplus property (section 2.5.800, ARM). We examined Montana's State Surplus Property Operating Plan and reviewed a June 1999 U.S. General Services Administration Biennial Review of Operations for Montana's federal surplus property program.

We interviewed division, bureau, and program staff to determine roles and responsibilities regarding state and federal surplus property and to identify the time spent on state versus federal activity. In addition, we determined how handling fees were established and monitored.

We examined state and federal surplus property files to identify process documentation and to outline procedures used by staff to assure compliance with program requirements. We examined inventory controls by reviewing a sample of state and federal items available in the warehouse and compared these to the department's inventory listing.

We contacted a sample of state agencies to review surplus property procedures, identify program concerns, and determine levels of potential surplus property on hand.

We compiled information related to the value of surplus material processed and identified groups acquiring this material, including state agencies, local governments, and the public.

We observed warehouse activity, sales to government entities and the public, and auctions. We also interviewed a judgmental sample of purchasers to help identify process efficiency and effectiveness and to assess purchaser satisfaction with surplus property procedures. In addition, we contacted other states to compare centralized versus decentralized approaches.

The audit was conducted in accordance with governmental auditing standards for performance audit.

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### Compliance

The department is generally in compliance with the regulatory requirements of the state and federal surplus property programs. We address areas for improvement and make recommendations in chapters III and V.

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### Management Memorandum

During the audit, we noted a minor issue relative to the other issues in this report. We presented an informal recommendation to the department on the following topic, which if adopted could result in operational improvement.

- < Federal utilization compliance. When federal surplus property is sold and exceeds \$5,000 in price, federal criteria requires the purchaser to place the item into service within 12 months and to keep the item for at least 18 months. Purchasers are required to document these two activities on forms provided by PSB and forward the document to the bureau. We noted files which did not include documentation of utilization as required. The department is in the process of revising procedures by assigning this responsibility to program staff to assure compliance with the federal criteria.

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### Report Organization

The remainder of this report is organized as follows:

- < Chapter II, Background
- < Chapter III, State Surplus Property Process
- < Chapter IV, Federal Surplus Property Process
- < Chapter V, Related Program Issues



# Chapter II - Background

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## **Introduction**

There are two types of surplus property programs: state surplus and federal surplus. The two programs are administered by the Department of Administration (DofA), Property and Supply Bureau (PSB). The state program is funded through the collection of a handling fee associated with the sale of state surplus property. The federal program is funded through the sales revenue from surplus federal property. Neither program receives state General Fund or federal support.

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## **State Surplus Property Program Goals and Objectives**

PSB's state surplus property operation provides for centralized acquisition and disposition of surplus property from one agency to other state agencies, local units of government, tax-supported agencies or political subdivisions of the state, and the public. Surplus property program goals include getting the maximum utilization from a piece of property through its useful life and recovering any residual value at the time of disposal. The department's objectives for the program are to:

- < Control state surplus property.
- < Remove unused surplus property from storage.
- < Help control the state's investment in property.
- < Control waste and misuse of state property.
- < Realize the maximum monetary return from the sale of state property.

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## **Federal Surplus Program Goal Is Fair and Equitable Distribution**

According to federal criteria, federal surplus property acquired through the state must be used by the government agency/entity to carry out or promote public purposes, such as conservation, economic development, education, parks, recreation, public health, or public safety. Procedures should allow for the fair and equitable distribution of federal surplus property to units of state and local government and to eligible nonprofit tax-exempt educational and health institutions.

## Chapter II - Background

### Surplus Program Revenue and Expenditures

Surplus property program revenue is attributable to day-to-day sales and to sales at public auctions. For state surplus property, day-to-day sales revenue is based on handling fees (discussed later in this chapter) for warehouse sales to eligible government entities and to the public at monthly garage sales. For federal sales, revenue is based on the price established by staff. The following table summarizes state and federal surplus property program revenues and expenditures for fiscal years 1997-98 and 1998-99.

**Table 1**  
Property and Supply Bureau  
State and Federal Program Expenditures and Revenue  
(Fiscal Years 1997-98 and 1998-99)

	<u>FY 1997-98</u>	
	<u>State Program</u>	<u>Federal Program</u>
Beginning Fund Balance	\$390,694	(\$ 48,093)
Auction Revenue	\$191,835	\$ 82,409
Daily Sales Revenue	<u>\$168,492</u>	<u>\$ 288,922</u>
Revenue Subtotal	\$360,327	\$ 371,331
Rebate*	(\$200,000)	
Expenditures	<u>(\$263,439)</u>	<u>(\$290,224)</u>
Ending Fund Balance	\$287,582	\$ 33,014
	 <u>FY 1998-99</u>	
	<u>State Program</u>	<u>Federal Program</u>
Beginning Fund Balance	\$287,582	\$ 33,014
Auction Revenue	\$119,365	\$ 24,647
Daily Sales Revenue	<u>\$144,440</u>	<u>\$226,345</u>
Revenue Subtotal	\$263,805	\$250,992
Rebate*	(\$ 44,077)	
Expenditures	<u>(\$266,051)</u>	<u>(\$279,732)</u>
Ending Fund Balance	\$241,259	\$ 4,274

\* The department issued rebates to state agencies to reduce the fund balance (see page 16).

Source: Compiled by the Legislative Audit Division from department records (unaudited).

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### **Bureau Staff Split Between Programs**

Within PSB, seven FTE positions are assigned to the state and federal surplus property programs. During our audit, two of the positions were vacant. Based on a work review by department officials, they calculate staff time is split 65 percent for the state program and 35 percent for federal program and staff expenditures are recorded for the two programs accordingly.

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### **State and Federal Missions Are Not the Same**

The missions of the state and federal surplus programs are not the same.

- < The purpose of the state program is to provide a process for state agencies to dispose of surplus equipment and material.
- < The purpose of the federal program is to provide a process to assure an equitable distribution of available federal property to qualifying entities.
- < Both programs focus on providing property to other eligible government entities at the lowest cost possible.

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### **State Surplus Property Statute and Rules**

Section 18-4-221, MCA, authorizes the Department of Administration to consider and decide matters of policy regarding disposal of surplus supplies belonging to the state. "Surplus supplies" refers to items owned by the state, retaining useful life, but no longer required by the possessing agency. Section 18-4-226, MCA, requires the department to adopt rules for disposal of surplus supplies by public auction, competitive sealed bidding, or other appropriate method designated by the rules. Section 18-4-226 (4), MCA, allows for collection of a reasonable handling fee for processing state surplus property.

Administrative rules further clarify the authority and procedures identified in statute. Section 2.5.701, ARM, requires state agencies to notify PSB of all surplus supplies. Section 2.5.702, ARM, indicates surplus supplies can be transferred to other state agencies or units of government. Additionally, surplus property may be traded in on new equipment if approved by PSB.

## **Chapter II - Background**

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### **Federal Surplus Property Statute and Rules**

Section 2-15-1011, MCA, requires the designation of a department as the state agency responsible for federal surplus property. Section 18-5-202, MCA, allows the state to:

- < Acquire surplus federal equipment, materials, books, or other supplies,
- < Warehouse the property,
- < Distribute federal property within the state to eligible participants,
- < Review and approve applications for participation in the surplus property program,
- < Assure utilization of property as required by federal law,
- < Enter into agreements with federal agencies for the acquisition of surplus property,
- < Act as a clearinghouse for information regarding acquisition of federal property, and
- < File a state plan of operations for surplus property.

Section 18-5-203, MCA, requires the state's federal surplus property agency be self-sustaining and pay for operations and maintenance from property sales receipts.

# Chapter III - State Surplus Property Process

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## Introduction

The process used by state agencies and Property and Supply Bureau (PSB) program staff for disposition of property excess to an agency's needs, includes transfer, sales, salvage/recycling, and disposal. To qualify to purchase surplus property directly from the state of Montana, an entity, known as a donee, must be one of the following:

- < State agency or department.
- < Political subdivision including: municipalities, counties, and school districts.
- < Organization/agency created by agreement with a state agency or political subdivision such as irrigation, weed control, or fire districts.
- < Multijurisdictional sub-state district established by state law.
- < Montana Indian reservation tribe or group.

## Process Begins With Agency Request

State agencies and departments are responsible for identifying material/equipment for surplus and preparing a Form 3, Property Adjustment Record. The document is forwarded to PSB's surplus property program staff for review and disposition determination. Record of the disposition request is maintained by staff in a logbook and the form is retained in bureau files. If PSB is aware of another state agency requiring an item declared surplus, that department is notified and direct transfer is authorized. Otherwise, surplus property disposition options include:

- < PSB screen and pickup. The bureau will schedule transportation to examine property, and for pickup and movement of the item to the department's warehouse.
- < Agency deliver to warehouse. The owning agency may transport the item to the warehouse (for those agencies with transportation capability).
- < PSB will sell on-site. The bureau may determine the item has adequate value warranting sale, however, transportation to the warehouse is not feasible. Bids are solicited for the item.

## Chapter III - State Surplus Property Process

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When surplus property staff determine items do not have further value to the state, the surplus request may be denied. The owning agency is responsible for disposal or salvage. In some instances, PSB will arrange for pick-up to expedite disposal of the property.

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### Surplus Property Received, Added to Inventory, and Displayed

When an item approved for surplus arrives at the warehouse, staff identify the condition, assess a value/determine a price, and establish a stock number. This information is recorded on a warehouse receipt document. When an agency requests a specific monetary value for an item, the dollar amount should be listed on the request form. The bureau may attempt to sell the item for this amount assuming it is consistent with its determination of value, or notifies the agency if it determines an alternative value. The item is tagged reflecting a price and stock number, and displayed in the warehouse for anticipated sale.

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### Four Surplus Cycles

According to the State Plan of Operations, once the item is on inventory, there are four succeeding surplus property cycles. The primary purpose of the cycles is to assure eligible entities such as other state agencies or local governments are provided the first opportunity to purchase surplus property, prior to the public. Direct transfer to another state agency would occur prior to the first cycle. The four cycles are:

- < Donee entity cycle. The material is only available to eligible donee entities by visiting the warehouse or through notification of availability in a bulletin mailed by PSB.
- < Public cycle. Material is available to the public through public sales, bid solicitations, and auctions. Donee entities may still acquire material during this cycle. The prices are the same for the public and donee entities.
- < Scrap/salvage cycle. After about 90 days, a determination is made by PSB regarding the need for disposal of material which has not sold in the previous cycles.
- < Junk cycle. Property may be destroyed or disposed of when PSB staff determine there is no remaining value. This decision could be made earlier in the process and the other cycles would be bypassed.

## **Chapter III - State Surplus Property Process**

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To advise anyone interested in state surplus property about the material available, PSB distributes a monthly bulletin. The bulletin mailing list includes eligible donee entities, as well as requesting members of the public. The bulletin identifies categories of surplus property such as vehicle accessories, shop equipment, and emergency/fire equipment. In addition to price and quantity, the bulletin indicates the condition of the item. According to staff, due to the high turnover rate of state surplus property, visits to the surplus warehouse provide the best opportunity to determine on-hand quantities and the actual condition of available inventory. Staff operate the warehouse daily for examination of property and sales to eligible donee entities.

When a donee representative identifies a requirement for surplus property, the item may be listed on a "want" list maintained by PSB staff. If the item is identified as surplus by a state agency, PSB staff notify the donee entity indicated on the want list. To physically examine the condition of the item, the donee representative has to visit the warehouse and then decide whether to purchase or not. There is no obligation to purchase items identified on a want list, because quality and condition are unknown until the donee representative examines the material.

Our review of sales (primarily office/administrative items) for a 60-day period (June-July 1999) revealed 30 percent of the total sales were to donee entities.

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### **Public Purchase Procedures**

State surplus property is only available to the public during garage sales conducted by the department the second Friday of each month. During the summer, when state agencies increase surplus property turn-in, it is not unusual to hold a garage sale every two weeks. According to staff, additional public sales are necessary to assure a turnover rate which will provide adequate space for newly received surplus property. During our review of sales for a 60-day period (June-July 1999), public sales were 70 percent of the total.

## **Chapter III - State Surplus Property Process**

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### **Price Reduction, Salvage, Destroy**

After property has been available to the public at a garage sale for 2 or 3 consecutive sales, staff may reduce the price to encourage sales and inventory turnover. Typically, the initial price is reduced by 50 percent, but it may be more, depending on the history of sales of similar items and the need to reduce inventory.

If the property does not sell at the reduced price, staff may decide to salvage or dispose of the item. In some cases, damaged or unrepairable items are taken directly to the landfill, where PSB pays a disposal fee. At this point in the process, staff take the action which reduces the disposition cost to the state the most and makes space available for additional property.

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### **Auction Sales**

Some state surplus items are most often sold at public auctions administered by the department. While surplus office furniture may be sold at auction, vehicles (sedans, trucks, vans) from all state agencies and specialized items such as road maintenance equipment from the Department of Transportation, off-road vehicles, snowmobiles, and boats from the Department of Fish, Wildlife and Parks, and/or firefighting equipment from the Department of Natural Resources and Conservation are more likely to be sold at the auction. The department administers one or two auctions each year depending on the amount of surplus inventory available.

The department contracts with a private auctioneer who oversees auction activities. The contract auctioneer is responsible for collecting all payments prior to release of property. The auctioneer subtracts fees allowed by the contract and forwards the remainder of the revenue along with sales records to PSB. The department retains vehicle titles until payments are received.

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### **Calendar Year 1999 Auctions**

The department conducted two auctions during calendar year 1999, one in June and the other in October. Using the list of auction items identified by PSB, the contract auctioneer organizes sales "lots." Typically, a vehicle would be one lot, while a variety of miscellaneous automotive parts might be consolidated into a single lot. For the June auction, 393 lots were available; October had 335 lots available.

## Chapter III - State Surplus Property Process

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When conducting auctions, the department provides an opportunity to local governments to participate. For the two 1999 auctions, the City of Helena, Lewis and Clark County, Jefferson County, and Sheridan County all consigned items for sale. In addition, the Montana Power Company consigned vehicles and equipment for the October auction. Local government and private property are assigned their own lot numbers and these entities pay the same auction fees as state agencies for sales of their property. According to PSB staff, consignment by these other entities increases public participation, improving sales in all categories.

The following table identifies consigning organizations and auction gross sales.

<b>Table 2</b>		
Property and Supply Bureau Auction Gross Sales		
<u>Property Consignment Organizations</u>		
(Calendar Year 1999)		
<u>Consignee</u>	<u>June</u>	<u>October</u>
State	\$ 448,550	\$ 562,985
Local Government	\$ 109,475	\$ 55,945
Federal	\$ 30,720	\$ 32,930
Private	<u>                    </u>	<u>\$ 374,800</u>
Total	\$ 588,745	\$1,026,660

Source: Compiled by the Legislative Audit Division from department records (unaudited).

## Chapter III - State Surplus Property Process

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From the gross sales, auction proceeds were distributed as follows:

	June <u>Auction</u>	October <u>Auction</u>
Auctioneer Fee	\$ 48,106	\$ 59,546
Handling Fee (PSB)	\$ 41,016	\$ 38,873
Agency, Local Government, and Private Reimbursement	\$ 484,276	\$ 912,730
Federal Reimbursement	\$ 14,469	\$ 15,510
Other Fees	<u>\$ 876</u>	<u>          </u>
Gross Sales	\$ 588,743	\$1,026,659

Source: Compiled by the Legislative Audit Division from department records.

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### Revenue Deposit Directed by Statute

According to section 18-6-101, MCA, proceeds from the sale of state surplus property, less the bureau's handling fee, will be credited to the General Fund, or to an enterprise or internal service fund when the property was initially accounted for by these funds. Revenue from the sales of Department of Transportation highway equipment is placed in the highway account of the state special revenue fund as required by section 18-6-103, MCA. PSB accounting staff are responsible for recording payments and controlling revenue received.

## **Chapter III - State Surplus Property Process**

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### **Handling Fee**

The handling fee covers operations costs such as staff salaries and benefits, transportation of surplus property to the sale site, cost of operating supplies, bulletins and sales advertising, computer system support and utilities, and warehousing/storage. The department sets the handling fee rate to assure costs are covered. Currently, for items sold at less than \$150, the bureau retains the total sales income as the handling fee. This revenue is deposited in the state's surplus property account. For items exceeding \$150, an 8 percent assessment is retained to cover costs and the remainder is returned to the General Fund or an agency account. In a September 1999 inventory, 33 items (2 percent) were priced over \$150.

Prior to 1999, auction handling fees were the same as fees for other sales. Starting in 1999, the department implemented a variable fee structure for auctions. Now agencies are assessed a handling fee based on volume of sales. The following fee structure is currently used:

- < 8 percent for sales \$0 to \$10,000
- < 6 percent for sales \$10,001 to \$50,000
- < 5 percent for sales \$50,001 to \$100,000
- < 4 percent for sales \$100,001 to \$200,000
- < 3 percent for sales over \$200,000.

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### **Fund Balance Is Used to Assess Handling Fees**

The department monitors the fund balance of the state surplus property program to help verify handling fee adequacy. Section 18-4-226(4), MCA, directs proceeds of PSB sales, minus a reasonable handling fee, to be allocated to either the General Fund or an enterprise or internal service fund if that is how the items were accounted for initially. In past years, the state surplus property fund balance, which is accumulated from collection of handling fees, has been relatively high. To decrease this balance, the department issued rebates to departments based on their accumulated sales in fiscal years 1997-98 and 1998-99. In addition, the department reduced handling fees for auctions for 1999. The following table reflects state surplus property fund balances for fiscal years 1996-97 through 1998-99.

## Chapter III - State Surplus Property Process

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**Table 4**  
**State Surplus Property Fund Balance**  
(Fiscal Years 1996-97 through 1998-99)

<u>Fiscal Year</u>	<u>Balance</u>
1996-97	\$390,694
1997-98	\$287,582
1998-99	\$241,259

Source: Compiled by the Legislative Audit Division from SBAS.

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***Conclusion: Department Is  
Monitoring Fund Balance  
and Adjusting Handling Fees***

When we initiated our review of the state surplus property program, we were aware of agency criticism of the handling fee rate used by the department. The law does not provide criteria beyond calculating a “reasonable” handling fee. Department activity in the last three years reflects an effort to reduce fund balances by reducing handling fees. Table 1 on page 6 shows that for fiscal year 1998-99, revenue from auctions and daily sales totaled \$263,805 for the state surplus program. Expenditures for the state surplus program totaled \$266,051. This appears to show adjustments made to the handling fee allowed the bureau to more closely match revenue with expenditures. In addition, department records reflect rebates to state agencies during the last two fiscal years to reduce this balance. Department officials review the fund balance on a quarterly basis as well as at the end of each fiscal year. *We conclude the department’s monitoring of the fund balance is providing a reasonable approach to managing handling fees.*

## Chapter III - State Surplus Property Process

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### **What Is in the Warehouse?**

To determine a value for state surplus property, we used the price established by staff and identified on the bureau's state inventory list. According to a September 1999 state surplus property inventory, there were 1,426 total items listed for sale. This list included 150 vehicles held for the next auction which were not priced for day-to-day sales. Fourteen vehicles were listed on the inventory with a price established. Using the prices listed, the total value of state surplus inventory was \$77,099. Prices range from \$1 for drill bits to \$10,000 for a vehicle (truck). To determine an average price for the warehouse items on this inventory, mostly office furniture/supplies, we excluded vehicles from our review. The average price of the remaining 1,262 items on the list was \$24.72. According to staff, vehicles are typically sold both at auction and during day-to-day sales for amounts approaching their current market value.

### **Audit Observations of State Surplus Property**

Based on our examination of state surplus property in the PSB warehouse, we made the following observations:

- < Most property processed as surplus by state agencies is nearing the end of its "remaining useful life."
- < As a result of the condition of this property, items are priced relatively low compared to the market value of new/replacement items.
- < There are exceptions, notably vehicles and heavy/specialized equipment and occasionally one-of-a-kind office furnishings. These items are priced relative to their market value.
- < The primary purchaser of surplus state property is the public, followed by eligible donee entities. There are exceptions; for example, a temporary state organization such as MTPRRIME could acquire surplus property through transfer.
- < While storage space is limited, low prices allow for an inventory turnover which continues to accommodate additional surplus state property.

## Chapter III - State Surplus Property Process

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### *Conclusion: Department Meeting Intent of State Surplus Property Program*

One of our audit objectives was to determine if the department meets the intent of the state surplus property program. We found the state's surplus program provides a process for state agencies to dispose of surplus equipment and material. Secondly, the program provides state surplus property to eligible donee entities at the lowest cost possible. *Based on our review, we conclude the department meets the intent of the state surplus property program.*

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### **Additional Flexibility Could Improve Process**

Another one of our other audit objectives was to assess centralized (DofA) versus decentralized (state agencies) control of state surplus property activities to determine any need for revision. The current process was established by the legislature to assure control of state property. Further, the department's development of rules and implementation of policies and procedures emphasize control and reduce opportunities for mistakes. The procedures developed by the department appear to assure general compliance with legislative intent. The majority of the agency officials we interviewed were aware of the strict controls and attempt to assure compliance.

Based on our review, we do not believe complete decentralization would improve the process in Montana. However, in the next section we address an issue concerning the need for additional flexibility for agencies to more efficiently dispose of items with low and no value that are excess to their needs. Our recommendation proposes giving agencies the option to directly dispose of low/no-value items. We found the costs associated with processing low/no-value items exceed the return to the state if the items are sold.

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### **Low/No-Value Property Process Efficiency**

Section 18-6-101, MCA, gives the Department of Administration exclusive power to sell or otherwise dispose of state property. State law defines surplus property as any item "having remaining useful life." According to statute, the department is also responsible for developing rules for sales, trade, and disposal of state surplus property. Current rules do not allow state agencies to transfer, sell, trade, or otherwise dispose of property without the written approval of PSB.

## Chapter III - State Surplus Property Process

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### Process Steps Take Time and Resources

The surplus property process is time-consuming, because the material must be handled manually to determine condition, tagged, appropriately displayed in the warehouse, and listed on the state surplus property inventory. In this section, we outline surplus property process steps using the example of a 25-year-old straight-back chair, which is a fairly common surplus item. To comply with current procedures, staff from the agency that owns the chair contact PSB by preparing a formal surplus request document. Because agency and PSB staff believe the chair has some “remaining useful life,” the decision is made to process the chair for surplus disposition. PSB staff receive and process the document which reflects the decision to surplus the chair.

Following the decision to surplus, PSB staff then arrange for transportation from the agency to the Helena warehouse. Staff examine the chair for condition and complete a receipt, pricing, and tagging process. The chair is displayed in the warehouse for sale to various government entities and/or the public. Receipt documentation is routed from the warehouse to the bureau office where the chair is added to the perpetual inventory. Eventually, if the chair sells, an invoice is processed, possibly a bill prepared and mailed, and a payment received and processed by accounting staff. Finally, PSB staff remove the chair from the inventory listing.

For other examples, we could have used items such as old typewriters, desktop calculators, and telephones which according to PSB staff have little, if any, value. These items may still be functional and meet the “remaining useful life” criteria, but have little or no value because the function once provided has been replaced by a more modern system in state government. However, to comply with the current regulatory requirements, agencies process these items through surplus property for disposition. Rules do not allow for direct disposal such as salvage, recycling, or disposal in a landfill by agency officials without written PSB approval.

## Chapter III - State Surplus Property Process

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### Costs Estimated for Process Steps

We determined an average cost for the state to process a surplus property item by estimating a range for the amount of time associated with each step in the process. Our use of a range of time for each step allows for differences in experience levels of staff as well as differences in the amount of time required to physically handle large and small items. The estimates assume multiple items are often processed at the same time. To determine the amount of time for each step, we focused on office/administrative property. The example is not applicable to vehicles or major equipment items usually sold at auction. We established the following range of processing times:

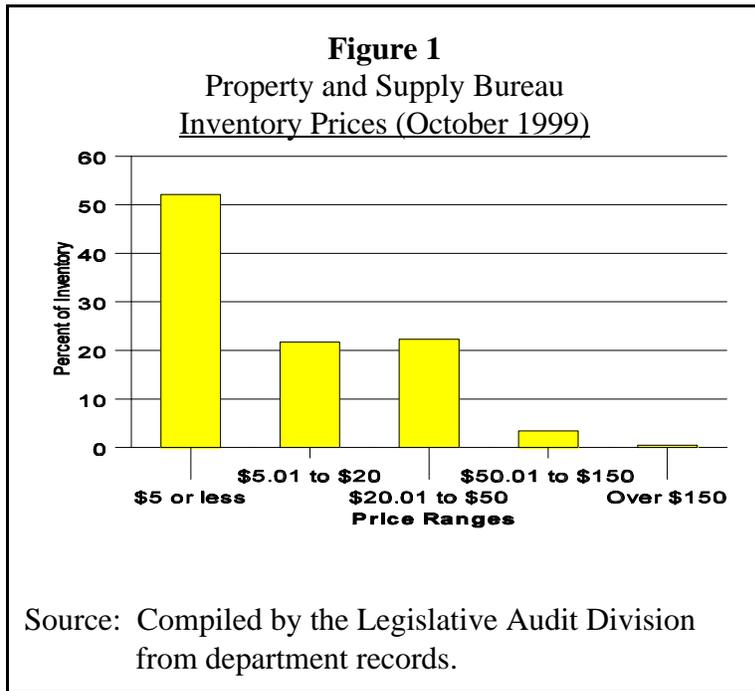
- < Processing request paperwork by the owning agency. 2 to 5 minutes.
- < Processing request paperwork by PSB. 2 to 5 minutes.
- < Scheduling transportation. 1 to 3 minutes.
- < Loading, transporting, and unloading property. 8 to 15 minutes.
- < Warehouse receipt, pricing, tagging, and display. 3 to 10 minutes.
- < Sales, invoice, and billing. 1 to 3 minutes.
- < Inventory control. 1 to 3 minutes.
- < Revenue control. 1 to 3 minutes.

We determined the total time ranged from 20 to 50 minutes per item. Using the hourly market rate for a grade 11, \$14.75 including insurance and benefits, we calculate the lower end of the range equates to a cost of about \$4.90 per item of surplus property. The upper end of the range equates to a cost of about \$12.30 per item.

## Chapter III - State Surplus Property Process

### Inventory and Sales Review Revealed Many Low-Value Items

To determine the extent of the low-value property in the system, we examined an October 1999 inventory. From our review of process costs above, we decided to use \$5.00 or less to define low/no-value items. We considered this the low end of the cost range and the most conservative approach. We noted 584 warehouse items (52 percent) on the inventory list were priced at \$5.00 or less. The following figure shows the distribution of property prices for the October 1999 inventory.



We also examined state surplus property sales for a 60-day period (June-July) in 1999 for an indication of the volume of low-value items. We noted 43.5 percent or 503 of the total items sold during this period were priced at \$5.00 or less.

## **Chapter III - State Surplus Property Process**

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### **Efficient Use of Resources Should Be a Consideration**

Based on our observations, we question the efficiency of processing items with little or no value through the surplus property process. To improve the surplus property process and increase the efficient use of state resources, agencies should have more flexibility for disposition of low-value and no-value items.

We identified other Montana programs which have established statute and rule criteria focusing on the efficient use of state resources. For example, section 17-4-107, MCA, addresses write-off procedures indicating if the pursuance of collection would cost the state more than the amount collected, procedures should be established for canceling the account. Further, section 2.4.201, ARM, addresses minimum refund criteria and directs departments not to prepare refunds if the amounts are less than three dollars. This rule was adopted in 1985. If the inflation rate were considered, the refund limit would now be closer to five dollars. The above criteria suggest it is not unusual for the state to consider the cost of preparing documentation and processing to determine when costs exceed the benefit to the state.

During our review of other states' surplus activities, we noted examples of states establishing minimum value levels for processing excess property through a surplus organization. Below the set value, the owning agency makes a determination of the best approach for disposition (sales, give-away, salvage, etc.).

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### **Bureau Resources Could Be Used for Other Program Requirements**

If PSB resources were released from processing low- and no-value items, primarily to the public, staff would have more opportunity to process items with greater value. This would result in more available warehouse space, less inventory management time, and ultimately more staff time for other workload. In this regard, we noted opportunities for PSB staff to increase work in other surplus property program areas in lieu of working low- and no-value items. For example, staff indicated the development of an electronic web site for inventory was progressing slowly. Available staff time could be dedicated to this project. In addition, we noted some decentralized agency locations require more assistance to process surplus property and staff could place more emphasis on this area.

## Chapter III - State Surplus Property Process

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### Revise Administrative Rules

To assure consistency between state agencies and the department's surplus property operations, the department should develop administrative rules to outline procedures for state agency disposition of low/no-value property. The rules should outline options and PSB-agency coordination procedures to assure the most cost effective disposition decision. In addition, PSB staff should be available to answer agency questions regarding the value and appropriate disposition of surplus property. Direct disposal, including salvage, recycling, or donation to a nonprofit organization could be the lowest cost approach.

#### Recommendation #1

**We recommend the department revise administrative rules for low- and no-value property to provide state agencies disposition options which increase surplus property process efficiency.**



# Chapter IV - Federal Surplus Process

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## **Introduction**

Federal statute allows states to establish a central agency for access to surplus federal property. Montana implemented the federal program under Title 18, chapter 5, part 2, MCA. Federal property is available to the state of Montana through agencies such as the Departments of Defense (DOD), Treasury, and Commerce. The majority of federal surplus material acquired by Montana is DOD property.

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## **Process Begins With Identification of Property Required**

The federal surplus property process typically starts with an eligible donee representative indicating a need for material or equipment. PSB staff compile a want list of requested items. Staff also keep track of items which routinely sell to eligible entities. For example, in Montana entities such as municipal and county governments and rural fire departments routinely require replacement of hand tools, firefighting equipment, cold-weather clothing, and special-purpose vehicles. As a result, staff attempt to find these types of surplus property items to maintain a stock which is made available to eligible entities.

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## **Screening Surplus Federal Property**

To access property, PSB program staff are designated as “screeners,” which allows them to travel to federal installations across the country to examine available material. The General Services Administration (GSA) oversees the federal surplus property program and is the approval agency for authorizing Montana’s staff to screen federal property.

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## **GSA Approves/Allocates**

PSB forwards their request for screened material to the appropriate regional GSA office (Fort Worth, San Francisco, or Denver). GSA officials determine which state should get the material if more than one requests it. Once the request is approved (signed and faxed back to PSB), staff arrange for transportation to Montana. PSB maintains a bid list for freight companies identifying companies from low to high bid. When GSA approval for material is received, staff start with the lowest bidder and call companies until one accepts the request.

## **Chapter IV - Federal Surplus Process**

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It is not unusual to arrange for a truck to make stops at more than one federal installation to pick up surplus material. For example, a truck picking up material in Texas may also travel to New Mexico or Utah on the way to Montana. Federal property is delivered to PSB's surplus property warehouse in Helena. Since a portion of the PSB warehouse structure is used to store state surplus property, federal property is separated from state property.

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### **Other Screening Options**

In addition to on-site screening, staff may access a federal computer system known as "FEDS" which allows for an examination of federal DOD surplus inventory. Following a FEDS review, PSB staff may decide to visit the location for on-site screening or material could be ordered directly. In this case the system generates the request forms and forwards them to GSA for approval. However, PSB staff have found inventory quantities in this system are not very reliable and there is no opportunity to review the condition of the items. Direct ordering through FEDS is seldom used by PSB.

Another federal screening option involves the use of a western states organization composed of state agencies acquiring surplus property. This organization arranges for the screening of property within the state by that state's agency screeners. One other option involves overseas material. A national surplus property organization which Montana belongs to contracts for screening of material at overseas locations.

In a few instances, eligible donee organizations conduct their own screening in lieu of PSB staff. Application for a screener's card requires approval by PSB as well as GSA. If a donee entity uses their own screener, costs to the state are reduced and the price charged to the donee entity by the state for the item is reduced.

### **Receipt, Price, and Inventory**

Federal property is delivered to the Helena warehouse. It is not unusual for military installations to package multiple items in large crates. Due to limited time, the on-site PSB screener identifies an adequate number of items in the container which are needed in Montana to justify the request. However, to get these items, PSB must take the entire container. As a result, the receipt process is time-consuming because all items must be handled to identify what was received and the condition. While the DOD attempts to package like items together, this is not always very precise. For example, the screener may have been looking for and found cold-weather parkas. The parka container may also include coveralls, gloves, hats, canteens, suspenders, etc. The shipping documentation, which is also the GSA approval form, may only indicate the primary items in the containers. More importantly, shipping documentation does not indicate condition of items in the container.

During warehouse receipt, staff establish a stock number and count the items for the inventory. In addition, staff evaluate the condition of the item to help determine a price. In accordance with federal criteria, the Montana Plan of Operations for federal surplus property allows for 6 to 14 percent of the original acquisition cost to be included in the price set by staff. Generally, an original government acquisition cost is provided by the DOD as part of the shipping documentation. Based on condition and the original acquisition cost staff establish a value within the 6 to 14 percent range. This price range allows staff the flexibility to establish a price based on their knowledge of current market value as well as condition of the item. Next, staff add a portion of the freight cost for the total load and set the price for the item. Price information is included on the warehouse receipt prepared by staff. The receipt document is also used to add property to Montana's federal surplus inventory list. When the item is added to PSB's inventory, staff affix a tag indicating stock number, price, and nomenclature and the material is then available for purchase by eligible donee entities. If the property was a want list item, the donee representative is called and advised of the availability of the item.

## **Chapter IV - Federal Surplus Process**

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### **Donee Purchasing Procedures**

To purchase an item, either the authorized entity official visits the warehouse to see what is available or reviews the monthly inventory bulletin distributed by staff. A “federal” invoice is used for surplus property sales to donee representatives. The donee representative may transport property after signing the invoice. When the invoice is forwarded to PSB accounting staff, the donee entity is billed and the inventory list quantity is reduced.

### **Auctions Include Federal Property**

If federal property does not sell to eligible donee entities, it may be sold to the public at auction. Federal criteria requires material to be available for sale to eligible donee entities for at least nine months before it can be sold at public auction. If staff believe the item may still be sold to an eligible donee entity, it does not have to be included on the auction list after nine months. Staff forward the list of potential auction items to GSA for review/approval. We noted in the two most recent auctions in June and October 1999 that only three to five percent of the sales were federal property.

Many states use GSA officials to administer federal property auctions. However, as noted earlier, Montana contracts with a private auctioneer and combines state and federal property into a single auction. For federal property, the auctioneer subtracts fees allowed by the contract and forwards the remainder to PSB. According to federal criteria established to limit sales to the public, GSA retains one-half of the payments received for federal property sold at auction. If an auction item has been held by the department for over two years, GSA retains the entire payment. PSB forwards federal surplus auction proceeds and sales records to GSA for review. GSA returns the state’s portion of auction proceeds to the department. Table 3 on page 14 reflects gross sales from federal property for the June and October 1999 auctions.

## Chapter IV - Federal Surplus Process

### **Federal Program Fund Balance**

Federal criteria requires the state to operate a federal surplus program which does not generate a profit, yet covers costs. Montana law requires the use of an internal service fund to account for revenue and expenditures. Day-to-day, staff attempt to price individual items based on their receipt of the transportation bills for each load. However, to assure costs are covered, the department routinely reviews the program fund balance comparing overall revenue to expenditures. In recent years, the federal surplus property fund balance has fluctuated. According to staff, the primary reasons for the fluctuation include:

- < For some items, the eventual sales price did not cover the costs incurred by PSB to acquire the property,
- < Receipt of items near the end of one fiscal year and sales in the next fiscal year, and
- < Auction timing (including one versus two auctions during the fiscal year).

The following table reflects federal surplus property fund balances for fiscal year's 1996-97 through 1998-99.

**Table 5**  
**Federal Surplus Property Fund Balance**  
(Fiscal Years 1996-97 through 1998-99)

<u>Fiscal Year</u>	<u>Balance</u>
1996-97	(\$48,093)
1997-98	\$33,014
1998-99	\$ 4,274

Source: Compiled by the Legislative Audit Division from SBAS.

## Chapter IV - Federal Surplus Process

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### *Conclusion: Controls Provide for Self-Sustaining Program*

Section 18-5-203, MCA, requires the state's federal surplus agency to be self-sustaining and pay for its operations and maintenance from receipts of surplus property sales. In addition, federal criteria included in the Montana Plan of Operations provides a price range which the department is obligated to use in order to participate in the federal surplus program. The day-to-day pricing activity, while dealing directly with costs, does not provide assurance of a self-sustaining operation, because the final sales price cannot be guaranteed.

As a result, we noted federal surplus property fund balances fluctuate from year to year. According to department officials, fluctuation is due to sales activities which are not always controllable by bureau staff as described above. Staff monitor fund balance quarterly to attempt to overcome these ongoing issues. For example, the Montana Plan of Operations allows for a price range of 6 to 14 percent of the original acquisition cost. Staff can influence fund balance by pricing items at the upper and lower limits of this range if necessary. While the federal surplus program had a negative balance at the end of fiscal year 1996-97 (\$48,093), there was a positive balance in the succeeding year. In the last fiscal year, the department had a small positive balance (see Table 5 on page 29). The department's approach appears to meet the intent of statute. *We conclude the department's procedures provide for adequate control of the requirement for the federal surplus program to be self-sustaining.*

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### **Federal Surplus Property Inventory**

To determine what federal surplus property is worth to eligible donee entities in Montana, we compared the sales price established by staff to the original acquisition cost provided by the federal agency. According to a September 1999 federal surplus property inventory we reviewed, 1,067 line items, equating to 16,519 individual items, were priced at \$237,576. Prices ranged from \$1 for a screwdriver to \$14,500 for a backhoe. The average price of these items was \$14.38.

For this same inventory list, the original acquisition value was \$1,908,895. This compares to the inventory's total sales price of \$237,576, or approximately 12 percent of the original acquisition cost. During our visits with donee entities, representatives expressed

## Chapter IV - Federal Surplus Process

satisfaction with the federal surplus property process, including the cost of material and the condition/quality of the items purchased.

### Who Buys Federal Property?

Using information compiled by the department to meet a federal reporting requirement, we identified purchasers of federal property in three categories: state agencies, local government entities, and nonprofit organizations. The following table reflects purchases by category using the original acquisition cost from sales for the past two fiscal years.

<u>Purchaser</u>	<u>FY 1998</u>	<u>%</u>	<u>FY 1999</u>	<u>%</u>
State	\$ 219,964	6	\$ 176,072	12
Local Gov't	\$2,197,041	60	\$1,164,187	77
Nonprofit	<u>\$1,245,323</u>	<u>34</u>	<u>\$ 166,836</u>	<u>11</u>
Total	\$3,662,328	100	\$1,507,095	100

Source: Compiled by the Legislative Audit Division from department records.

### Audit Observations of Federal Surplus Property

We made the following observations regarding PSB's federal surplus program:

- < Most federal surplus property has remaining useful life.
- < The cost of acquiring federal surplus property allows for a relatively low price compared to the market value of new/replacement items.

## **Chapter IV - Federal Surplus Process**

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- < There are exceptions; since purchases are made in “lots,” occasionally low-quality items must be accepted to acquire the more valuable material. To sell these items, the price may be less than the cost to the state.
- < The size of the inventory reflects one program intent which is to maintain adequate types and quantities of materials to support the needs of eligible entities in Montana.

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***Conclusion: Department Meeting Intent of Federal Surplus Property Program***

Our audit objective for federal property asked if the department meets the intent of the federal surplus property program. We noted the federal surplus program provides a process to assure an equitable distribution of property to qualifying entities. Secondly, the program provides federal surplus property to eligible donee entities at the lowest cost possible. *Based on our review, we conclude the department meets the intent of the federal surplus property program.*

# Chapter V - Related Program Issues

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## **Introduction**

In this chapter, we address three areas which could impact the effectiveness of the surplus property operation in Montana. We present recommendations related to:

- < Improving program awareness, and
- < Developing procedures for control of revenue generated from sale of surplus property by state agencies.

In addition, we present a conclusion on our audit objective which required an assessment of the need for modernizing inventory controls in the two programs.

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## **Surplus Property Program Awareness**

Through discussions with state agency staff and donee entity officials, we identified several issues relating to surplus property program awareness and information dissemination. Considered individually, we do not believe the issues identified below represent a significant program concern. However, when combined, we believe program awareness is an issue which, if pursued, could be used to improve surplus property program operations.

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## **Want List Awareness Could Be Improved**

One issue related to use of the “want list” to find specialized items for state agencies and donee entities. During interviews, both state agency staff and local government donee entity officials indicated they were not aware items could be listed on a PSB maintained want list, or that PSB staff would look for these items during screening visits to federal sites. We noted PSB staff attempt to get the word out regarding the use of the want list and screening opportunities whenever a potential purchaser calls on the telephone and through discussion with donee entity officials at the warehouse. However, based on our observations, this approach has limitations. The impact to potential purchasers across the state is they may be waiting for items to appear on the monthly bulletin or to be displayed in the warehouse when PSB staff could be overlooking the items during routine screening activities. With a more comprehensive want list, PSB screening trips could be more efficiently planned and conducted. In addition, by acquiring more want list property, efficiencies associated with transportation costs should be possible.

## **Chapter V - Related Program Issues**

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### **Monthly Bulletin Availability and Distribution**

PSB prepares and distributes a monthly bulletin to provide state agencies and donee entities a reasonably current inventory of available state and federal surplus property. During discussions with state agency staff responsible for property management we found the monthly bulletin distributed by PSB was not always received. We noted PSB staff recently asked agencies to update their monthly mailing list. However, it appears this update process did not reach staff in all property management functions within some agencies. In part, this problem is traceable to internal agency routing and coordination. As a result, state agency personnel are not aware of the range of state and federal items listed in the monthly bulletin and available for transfer (state) or purchase (federal). By improving the availability of bulletin information, possibly through electronic mail or a web site, there is a greater opportunity for state agencies to take advantage of low cost state and federal surplus property.

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### **Fifty-Percent-Off Sale**

Prior to the auction, federal criteria allows for a 50-percent-off sale to eligible donee entities. During this period, eligible entities may purchase auction-designated property at one-half the established price, and the department retains the funds to pay program costs. Remaining unsold property is available for the public auction. We talked with state agency staff and donee entity officials who were not aware of the 50-percent-off sale prior to a scheduled surplus auction. While PSB staff have attempted to inform potential customers regarding the 50-percent-off sale by highlighting items in the monthly bulletin, we found potential customers who did not understand the intent of the highlighting. The result was state agencies and donee entities which should have the first priority for purchase of state and federal surplus property could not take advantage of the low price opportunity offered by PSB prior to an auction. Further, for federal property sold at auction, the department must pay an auction fee and split the remainder of the price with GSA. If donee entities buy the items at the 50-percent-off sale, this could be avoided.

## Chapter V - Related Program Issues

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### Property Donation to Schools

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Section 18-6-101, MCA, empowers the department to authorize state agencies to donate property to school districts for classroom use based on procedures developed by the Office of Public Instruction (OPI). Enacted by the 1999 Legislature, this law requires OPI to develop procedures to allow for equal access and fair distribution of property to schools. We found the primary property being donated through this program was computer components. At the time of our audit, over 150 computers had been donated through this program. OPI's procedures appear to establish a donation priority to assure a fair distribution to schools indicating a desire to participate in the program. Agencies are not allowed to donate property directly to a school.

During discussions with various state agency staff, we asked about the use of the donation program in lieu of the more traditional state surplus property procedures for computer-related items. We found many agency staff were not aware of this option for disposition of excess computers. In most cases, staff believed their only option was to process surplus items through PSB.

### Ongoing Process for Program Awareness Is Needed

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During our audit, PSB was in the process of developing an electronic web site to complement the monthly bulletin. The web site could not only be used for a more current and timely inventory list available to state agency staff, donee entity officials, and the public, but could also be used to resolve/publicize the program awareness issues identified above.

Further, we believe staff should identify proactive steps to improve program awareness. For example, staff should use the monthly bulletin to better explain items such as how to use the want list, 50-percent-off sale procedures, and the school donation program. The use of inserts (possibly colored pages) in the monthly bulletin could be used to assure potential purchasers are aware of program activities. To improve program awareness among state agency property management officials, PSB staff could develop an information awareness process using the state's electronic-mail system in conjunction with the proposed web site development.

## Chapter V - Related Program Issues

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### Recommendation #2

**We recommend the department increase surplus property program awareness by:**

- A. Using the bulletin to provide more program information regarding the want list, 50-percent-off sale, and school donation.**
- B. Continuing to improve and develop an electronic web site.**
- C. Using the state's electronic-mail system.**

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### **Control of Revenue From Agency Sales**

Based on the general provisions of Title 18, chapter 4, MCA, the department delegated the “option” to use PSB surplus property services to units of the University System. Delegated authority allows university units to directly dispose of property through salvage, recycling, disposal in a landfill, or sales to other government entities and the public. These are the same disposition choices available to PSB.

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### **University Units Conduct Garage Sales**

According to staff at one university location, all surplus items are first offered to departments on the campus. Any remaining property is accumulated in a centralized storage area. When the storage area is full, staff schedule a garage sale. The sale is advertised in local newspapers and the public is welcome. Staff price items based on consideration of their potential market value and condition. When items are sold, the purchaser pays on-site and is responsible for removing the property. Items which do not sell are offered to a nonprofit organization which removes them at no cost to the university. At another campus, a similar process is used, except some property is designated for trash/landfill disposal up-front. Locally, university staff retain documentation reflecting their decision to remove an item from inventory for disposition.

## Chapter V - Related Program Issues

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### Sales Revenue Used to Cover Costs

At the campus we examined, the revenue generated from the garage sale was used to help cover the cost of staff time in support of the sale, equipment facility use, and advertising. In addition, according to campus staff, the decision was made to return revenue in excess of \$500 for an individual item to the department declaring the item surplus. Although the most recent university unit garage sale did not include any items approaching \$500, this criteria is not consistent with the PSB handling fee policy. For PSB, the handling fee is the total sales price for items of \$150 or less, or 8 percent of sales over \$150.

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### Revenue Control Should Be Consistent With Existing Criteria

Currently, PSB incurs most of the costs of processing state surplus property in accordance with statute which established a handling fee system to pay for these costs. However, some units of the University System have been processing their own surplus property including conducting sales. In most cases, the units incur the cost of handling and disposition otherwise incurred by PSB. We noted these units established their own procedures to account for surplus sales revenue. Since the handling fee statute is not specific to DofA, but rather to the handling of surplus property, we believe agencies with delegated authority incurring costs related to sales activities also have the option to retain a handling fee to address costs. These agencies should use cost accounting procedures which are consistent with procedures used by PSB.

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### Clarify Delegation Authority to Address Sales Revenue

The department should clarify delegation authority language to provide agencies with procedures for establishing sales responsibility centers, retaining adequate cost documentation, and depositing surplus property sales revenue into accounts managed by the agency. These procedures should be consistent with the fee structure used by PSB.

#### Recommendation #3

**We recommend the department clarify delegation authority to provide procedures for deposit of surplus property sales revenue into accounts managed by the agency to cover the cost of agency sales.**

## **Chapter V - Related Program Issues**

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### **Inventory Control Upgrade**

Another one of our objectives was to assess inventory controls to determine any need for improving inventory control by upgrading existing state and federal program systems and procedures. We examined random samples of property for both programs by comparing on-hand warehouse quantities to the inventory list. For the state surplus property program, we examined 50 items and found an initial accuracy rate of 92 percent. With minimal investigation of discrepancies, accuracy approached 98 percent. Movement of property by potential purchasers, multiple locations for like items, and lost tags were the most common reasons for discrepancies. The total value (prices) of the sample we examined was \$2,468. The value of the items not accounted for was \$100.

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### **Federal Surplus Inventory Review**

For the federal surplus property program, we also examined 50 items and found an initial accuracy of 82 percent. With minimal investigation, accuracy increased to 90 percent. According to staff, the most common reason for discrepancies in federal inventory results from the use of new stock numbers for like items received in succeeding shipments. This is a federal requirement. However, as potential purchasers move through the warehouse, it is not unusual to carry items while examining additional property. For example, an ammunition can or a socket might be carried from one location to another location with the same item, but a different stock number. In other cases, the transfer of sales information to inventory reduction was not always accurate. These problems result in inventory discrepancies which would not be reconciled without a complete facility inventory, which the department conducts once each year. The total value of our sample was \$9,835. The total value of the missing items was \$81.

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### **Federal Report Indicates Satisfaction With Controls**

In addition to our review of federal property inventory, we examined the June 1999 General Services Administration Biennial Review of Operations of Montana's federal surplus property program. In this report, GSA officials indicated satisfaction with the status of inventory, overage and shortage reports, and cancellations. GSA did not develop a recommendation to the department regarding inventory control.

## Chapter V - Related Program Issues

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### **Warehouse Facility Is a Consideration**

The existing PSB facility is basically an open warehouse, divided to meet security needs to maintain separate state and federal inventories. Access to the facility is available through garage doors for each area, as well as a personnel entry door. Whenever received or sold property is loaded or unloaded, these doors are open and there is access to the entire warehouse. Eligible donee representatives are free to move about both sections of the facility to examine state and federal property prior to purchasing. During the state program garage sale, access to the federal storage area is blocked by a tarp.

We noted the primary reasons for inventory inaccuracy related to the movement of property within the facility. In order to increase controls within the facility to reduce property movement and improve staff capability to locate items, both more space and better utilization of space would be required. While wooden shelving is available in both areas, the homemade design would not accommodate a modern inventory storage and control system utilizing bar coding or similar technologies without modification. In addition, control of customer access and staff visibility over both areas would require facility redesign.

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### **Cost-Effectiveness Does Not Warrant Upgrade**

Based on our review of inventory control, facility operations, and a sample of state and federal inventories, we determined upgrading the state's inventory control system would not be cost-effective. We noted minor inventory discrepancies reflecting low dollar value in both programs. Reconciliation involves searching the facility and/or researching sales and inventory documentation. The trade-off of the cost of facility and computer system upgrade does not appear to match potential gains in inventory control.

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### ***Conclusion: Existing Procedures Adequately Control State and Federal Inventory***

*We conclude upgrading Montana's surplus property inventory control system would not be cost-effective at this time.*



# **Agency Response**

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DEPARTMENT OF ADMINISTRATION  
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March 10, 2000

Scott A. Seacat, Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena MT 59620-1705

MAR 13 2000

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the performance audit of the state and federal surplus property programs in the Department of Administration. Our responses follow:

RECOMMENDATION #1: WE RECOMMEND THE DEPARTMENT REVISE ADMINISTRATIVE RULES FOR LOW AND NO-VALUE PROPERTY TO PROVIDE STATE AGENCIES DISPOSITION OPTIONS WHICH INCREASE SURPLUS PROPERTY PROCESS EFFICIENCY.

Response: We concur. The Department will make appropriate changes to the administrative rules to allow for disposition options for low and no-value property. This recommendation will be implemented by July 1, 2000.

RECOMMENDATION #2: WE RECOMMEND THE DEPARTMENT INCREASE SURPLUS PROPERTY PROGRAM AWARENESS BY:

- A. USING THE BULLETIN TO PROVIDE MORE PROGRAM INFORMATION REGARDING THE WANT LIST, 50-PERCENT-OFF SALE, AND SCHOOL DONATION.
- B. CONTINUING TO IMPROVE AND DEVELOP AN ELECTRONIC WEB SITE.
- C. USING THE STATE'S ELECTRONIC-MAIL SYSTEM.

Response: We concur. The web site is completed, and we will continue to improve our communication with our customers. Implementation of this recommendation will be on going.

**RECOMMENDATION #3: WE RECOMMEND THE DEPARTMENT CLARIFY DELEGATION AUTHORITY TO PROVIDE PROCEDURES FOR DEPOSIT OF SURPLUS PROPERTY SALES REVENUE INTO ACCOUNTS MANAGED BY THE AGENCY TO COVER THE COST OF AGENCY SALES.**

Response: We concur. We will make the recommended clarification. This recommendation will be implemented by July 1, 2000.

We appreciate the opportunity to work with your staff on these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Lois Menzies". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

LOIS MENZIES  
Director